

**HESPERIA AREA FIRE AUTHORITY
OCEANA COUNTY, MICHIGAN**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2008

HESPERIA AREA FIRE AUTHORITY

Authority Board

March 31, 2008

Chairperson	Alan Daniels	Newfield Township
Trustee	Don Myers	Newfield Township
Trustee	Ron Ward	Denver Township
Trustee	Jack Burrell	Denver Township
Trustee	Jake Reas	Greenwood Township
Trustee	Ron Stroven	Greenwood Township
Trustee	Jack Adam	Rotating Member

HESPERIA AREA FIRE AUTHORITY

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Hesperia Area Fire Authority
Hesperia, Michigan

Independent Auditor's Report

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of Hesperia Area Fire Authority as of and for the year ended March 31, 2008, which collectively comprise a portion of the Authority's basic financial statements required by accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hesperia Area Fire Authority as of March 31, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2 through 4 and page 13, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information, however, we did not audit the information and express no opinion on it.

As discussed in Note A, the Authority adopted Governmental Accounting Standards Board Statement Number 34 during the current year. As a result, these financial statements present entirely new financial information. Governmental activities report information by individually significant fund, as well as in total on the full accrual basis of accounting.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hesperia Area Fire Authority's basic financial statements. The introductory section, is presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Hendon & Slate, P.C.

Hendon & Slate, PC
Certified Public Accountants
January 5, 2009



HESPERIA AREA FIRE AUTHORITY

Management's Discussion and Analysis For the Year Ended March 31, 2008

Using this Annual Report

This annual report consists of a series of financial statements. The Governmental Wide Statement of Net Assets and the Government Wide Statement of Activities provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Authority's operations in more detail than the government-wide financial statements.

The Authority as a Whole

The Authority's combined net assets decreased 11.1% primarily due to depreciation of the Authority's equipment. In a condensed format, the table below shows a comparison of the net assets as of March 31, 2008 and 2007.

	Governmental Activities	
	<u>2008</u>	<u>2007</u>
Current Assets	\$ 38,905	\$ 25,101
Noncurrent Assets	<u>314,853</u>	<u>377,325</u>
Total Assets	353,758	402,426
Long-Term Debt Outstanding	236,611	267,523
Other Liabilities	<u>2,490</u>	<u>5,858</u>
Total Liabilities	<u>239,101</u>	<u>273,381</u>
Net Assets		
Invested in Capital Assets-Net of Debt	78,242	109,802
Unrestricted	<u>36,415</u>	<u>19,243</u>
Total Net Assets	<u>\$ 114,657</u>	<u>\$ 129,045</u>

Unrestricted net assets - the part of net assets that can be used to finance day to day operating, increased by \$17,172 for the governmental activities. This represents an increase of approximately 89%. The current level of unrestricted net assets for our governmental activities stands at \$36,415 or about 30% of expenditures.

Management's Discussion and Analysis (continued)

The following table shows the changes of the net assets for the year ended March 31, 2008. Comparative information will be provided in future years when prior year information is available.

	Governmental Activities <u>2008</u>
Program Revenues	
Operating Contributions	\$ 125,099
Charges for Services	3,000
General Revenues	
Interest	1,660
Miscellaneous	<u>8,466</u>
Total Revenues	138,225
Program Expenses	
Public Safety	76,045
Debt Service	9,734
Depreciation	<u>66,584</u>
Total Expenses	<u>152,363</u>
Revenues Over (Under) Expenses	(14,138)
Extraordinary Loss	<u>(250)</u>
Change in Net Assets	<u><u>\$ (14,388)</u></u>

Governmental Activities

The total governmental revenues are primarily due from local unit payments for fire protection services, accounting for just over 90% of total revenues.

The Fire Authority's largest expense is depreciation, accounting for over 43% of total expenses. Payroll and related expenses totaled \$31,256 or 20.5%. Repairs and maintenance expenses were high this year at \$15,827. This is over 10% of our total expenses, however, \$7,714 of this was reimbursed by insurance companies and is reported above as miscellaneous revenue.

Business-Type Activities

The Authority had no business type activities.

Management's Discussion and Analysis (Continued)

The Authority's Fund

The fund column of the financial statements provide detail information about the most significant funds, not the Authority as a whole. The Authority's only fund for 2007/2008 was the General Fund.

The General Fund pays for all of the Authority's governmental services. As the Authority's objective is public safety through fire protection and rescue, the majority of all expenditures are public safety. The largest expenditures within public safety are payroll and related expenses, repairs and maintenance, and insurance at 25.9%, 13.1% and 10.5% of public safety expenditures.

The local units of government collect property taxes which are remitted to the Authority for fire protection.

General Fund Budgetary Highlights

The Authority adopts its budget by line item and amends its budget during the year if necessary. The most significant changes were to increase Insurance Recoveries revenue by \$4,146 and also increases to payroll and payroll tax expenditures. The Authority did have one large overexpenditure in Repairs and Maintenance - Insurance Recoveries. These expenses were not budgeted for as they were expected to be reimbursed by our insurance company.

Capital Asset and Debt Administration

At the end of the 2008 fiscal year, the Authority had approximately \$315,000 invested in capital assets, consisting mostly of a building, land, and vehicles. The vehicles are being depreciated over a 10 year estimated useful life.

The Authority entered into a loan with Shelby State Bank in September 2004 to consolidate previous debt and purchase an Elliptical Tanker. The original loan was for \$336,891 with monthly payments of \$3,387.25 at 3.85% interest over 10 years.

Economic Factors and Next Year's Budgets and Rates

The Authority's budget for 2008-2009 shows an increase of just over \$7,500 in revenue from the local units collection of property taxes and a decrease in insurance recovery revenue of just over \$4,100.

Expenses in the 2008-2009 budget are expected to remain relatively constant with possible small inflationary increases except for an increase in professional services due to the audit requirement.

Contacting the Authority's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Authority's office.

HESPERIA AREA FIRE AUTHORITY

Governmental Fund Balance Sheet/Statement of Net Assets For the Year Ended March 31, 2008

	General <u>Fund</u>	<u>Adjustments</u> *	Statement of <u>Net Assets</u>
ASSETS			
Cash and Equivalents	\$ 36,214	\$ -	\$ 36,214
Accounts Receivable	1,500	-	1,500
Prepaid Expenses	1,191	-	1,191
Land	-	100,000	100,000
Capital Assets, net of accumulated depreciation	<u>-</u>	<u>214,853</u>	<u>214,853</u>
Total Assets	<u><u>\$ 38,905</u></u>	314,853	353,758
LIABILITIES			
Cash Overdraft	\$ 2,490	-	2,490
Current Portion of Long-Term Obligation	-	32,124	32,124
Noncurrent Portion of Long-Term Obligation	<u>-</u>	<u>204,487</u>	<u>204,487</u>
Total Liabilities	2,490	236,611	239,101
FUND BALANCE/NET ASSETS			
Fund Balances:			
Unreserved	<u>36,415</u>	<u>(36,415)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u><u>\$ 38,905</u></u>		
Invested in Capital Assets, Net of Related Debt		78,242	78,242
Unrestricted		<u>36,415</u>	<u>36,415</u>
Total Net Assets		<u><u>\$ 114,657</u></u>	<u><u>\$ 114,657</u></u>

*Notes to the Financial Statement provide the details for the main components of the adjustments.

HESPERIA AREA FIRE AUTHORITY

Statement of Governmental Revenue, Expenditures and Changes in Fund Balance/Statement of Activities For the Year Ended March 31, 2008

	General <u>Fund</u>	<u>Adjustments</u> *	Statement of <u>Activities</u>
Revenues			
Contributions from Local Units	\$ 125,099	\$ -	\$ 125,099
Charges for Services	4,000	(1,000)	3,000
Interest	1,660	-	1,660
Insurance Recoveries	7,714	-	7,714
Miscellaneous	<u>752</u>	<u>-</u>	<u>752</u>
Total Revenues	139,225	(1,000)	138,225
Expenditures			
Public Safety	76,045	-	76,045
Capital Outlay	4,112	(4,112)	-
Debt Service	40,647	(30,913)	9,734
Depreciation	<u>-</u>	<u>66,584</u>	<u>66,584</u>
Total Expenditures	<u>120,804</u>	<u>31,559</u>	<u>152,363</u>
Excess Revenues Over (Under) Expenditures	18,421	(32,559)	(14,138)
Extraordinary Income	2,830	0	2,830
Extraordinary Loss	<u>(3,080)</u>	<u>-</u>	<u>(3,080)</u>
Change in Fund Balance/Net Assets	18,171	(32,559)	(14,388)
Fund Balance/Net Assets - Beginning of Year	<u>18,244</u>	<u>110,801</u>	<u>129,045</u>
Fund Balance/Net Assets - End of Year	<u><u>\$ 36,415</u></u>	<u><u>\$ 78,242</u></u>	<u><u>\$ 114,657</u></u>

*Notes to the Financial Statement provide the details for the main components of the adjustments.

HESPERIA AREA FIRE AUTHORITY

Notes to the Financial Statements
March 31, 2008

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. REPORTING ENTITY

The Hesperia Area Fire Authority is a corporation established by agreement among Greenwood, Newfield, and Denver Townships on April 1, 2001. The Hesperia Area Fire Authority was established to provide fire emergency services, and the equipment and personnel for fire protection, and funding in the geographic area of the townships.

The financial statements of the Hesperia Area Fire Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establish governmental accounting and financial reporting principles. The Authority was formed under the powers of the townships pursuant to the provisions of Act 57 of the Public acts of 1988.

The Hesperia Area Fire Authority is governed by an Authority Board. The Board consists of six members (two from each township) plus a seventh member selected by the other six members from the residents of the township. The members elect a Chairperson and a clerk and annually appoint a fiscal agent.

2. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The Authority's basic financial statements include both government-wide (reporting the Authority as a whole) and fund financial statements (reporting the Authority's major fund).

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Authority's net assets are reported in three parts-investing in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The effect of interfund activity has been eliminated from the government-wide financial statements. Also, there are no fiduciary funds included in the government-wide statements.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Notes to the Financial Statements (continued)

Contributions from local units and other revenue that are both measurable and available for use to finance operations and recorded as revenue when earned. Other revenue is recorded when received.

The Authority reports the following major governmental funds:

General Fund - This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the Authority. Revenues are derived primarily from intergovernmental activities.

3. ASSETS, LIABILITIES, AND FUND BALANCE

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds". Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds".

Inventories and Prepaid Items - Payments for inventorable types of supplies are recorded as expenditures at the time of purchase. Normally expenditures are not divided between years by recording of prepaid expenses. There were no material inventories at year-end.

Capital Assets - Capital assets are defined by the Authority as assets with an initial cost of more than \$1000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance that do not add to the value of the asset or materially extend assets lives are expenses as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and Improvements	10 - 50 Years
Vehicles	8 - 15 Years
Equipment	5 - 10 Years

Fund Balance - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

4. Budgets and Budgetary Accounting. The General Fund is under formal budgetary control. The budget shown in the financial statements for this fund was prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consists only of those amounts contained in the formal budget approved and amended by the Board.

In the body of the financial statements, the Authority's actual expenditures and budgeted expenditures for the budgetary fund has been shown on a functional basis. The approved budgets for this budgetary fund was adopted at the line-item level.

Notes to the Financial Statements (continued)

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year, the following material overexpenditure occurred:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Repairs and Maintenance			
Insurance Recoveries	-	9,097	(9,097)

5. Economic Dependency. Based on current fire protection agreements, the majority of the Authority's financing comes in the form of special assessments from three local units of government. The assessment is paid in the beginning of the fiscal year for the taxes billed by the governments in the previous fiscal
6. Encumbrance Accounting. The Authority does not use encumbrance accounting.
7. Estimates. Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported revenues and expenditures/expenses. Actual results could differ from those estimates.
8. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not included among program revenues are reported instead as general revenues.
9. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted as they are needed.
10. Risk Management. The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets and omissions; and natural disasters for which the Authority carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

NOTE B DEPOSITS AND INVESTMENTS

Legal Provisions for Deposits and Investments - The Investment of Surplus Funds of Political Subdivisions Act No. 20, Public Acts of 1943, as amended through December 31, 1997, state the Township, by resolution may authorize the Treasurer to invest surplus finds in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2).
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptances of the United States banks
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.

Notes to the Financial Statements (continued)

- g. Mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 801-3 and 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:

1. The purchase of securities on a when-issued or delayed delivery basis.
 2. The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities loaned.
 3. The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperations Act of 1967, 1967 (Es Sess) PA7 MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus Funds investment Pool Act, 1982 PA 367, 129.111 to 129.118
- j. The investment pools organized under the Local government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.

Investments are normally categorized to give an indication of the level of risk assumed by the Authority; however, money market funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investments in the funds comply with the investment authority noted above. Deposits are carried at cost. Cash deposits of the Authority are in one financial institution: Shelby State Bank of Hesperia. These accounts are in the Authority's own name.

The Authority's deposits are in accordance with statutory authority as follows:

	Carrying Amount	Market Value
Checking - Overdraft	\$ (2,490)	\$ 10,106
Premium Savings	36,214	36,214
Total	<u>\$ 33,724</u>	<u>\$ 46,320</u>

All amounts are covered by FDIC Insurance.

NOTE C ACCOUNTS RECEIVABLE

The Fire Authority only records amounts as receivables if they have been collected within the 60 day period following the March 31st fiscal year end. Accordingly, there are no amounts recorded as revenue that will not be collected and thus no allowance for bad debt has been recorded.

Receivables at March 31, 2008 consisted of the following:

Insurance Billings	<u>\$ 1,500</u>
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Notes to the Financial Statements (continued)

NOTE D CAPITAL ASSETS

Capital asset activity of the primary government of the current year was as follows:

	4/1/2007 Balance	Additions	Deletions	3/31/2008 Balance
Governmental Activities				
Capital Assets not Being Depreciated:				
Land	\$ 100,000	\$ -	\$ -	\$ 100,000
Capital Assets Being Depreciated:				
Vehicles	438,663	-	-	438,663
Equipment	112,914	4,112	-	117,026
Total at Historical Cost	551,577	4,112	-	555,689
Less Accumulated Depreciation:	(274,252)	(66,584)	-	(340,836)
Net Capital Assets Being Depreciated	<u>\$ 277,325</u>	<u>\$ (62,472)</u>	<u>\$ -</u>	<u>\$ 214,853</u>
Total Governmental Activities				
Capital Assets-Net of Depreciation	<u>\$ 377,325</u>	<u>\$ (62,472)</u>	<u>\$ -</u>	<u>\$ 314,853</u>

Depreciation expense for public safety was \$66,584 for the year ended March 31, 2008.

NOTE E LONG-TERM DEBT

Long-Term Debt activity for the Hesperia Area Fire Authority consisted of one note, payable to Shelby State Bank. It originated in September 2004 and matures September 30, 2014. Principal and interest are payable in monthly installments of \$3,387 with interest at 3.85%. The note is secured by all assets of the Authority.

	Balance 3/31/2007	Increases	Decreases	Balance 3/31/2008	Due Within One Year
Shelby State Bank	<u>\$ 267,524</u>	<u>\$ -</u>	<u>\$ 30,913</u>	<u>\$ 236,611</u>	<u>\$ 32,124</u>

Interest expense of the Authority for the year ended March 31, 2008 amounted to \$9,734.

The annual requirements to amortize debt outstanding at March 31, 2008 are as follows:

Year Ended March 31	Total	Principal	Interest
2009	40,647	32,124	8,523
2010	40,647	33,382	7,265
2011	40,647	34,691	5,956
2012	40,647	36,050	4,597
2013	40,647	37,463	3,184
2014 - 2015	64,358	62,901	1,457
Total	<u>\$ 267,593</u>	<u>\$ 236,611</u>	<u>\$ 30,982</u>

NOTE F RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance and the net change in fund balance of the Authority's governmental fund differs from net assets and the statement of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance - Modified Accrual Basis		\$ 36,415
Amounts reported in the statement of net assets are different		
Capital assets used in governmental activities are not financial		
Governmental Capital Assets	\$ 655,689	
Governmental Accumulated Depreciation	<u>(340,836)</u>	314,853
Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund statements. Long-term liabilities reported in the statement of net assets that are not reported in the governmental statement of activities:		
Note Payable		<u>(236,611)</u>
Net Assets of General Fund - Full Accrual Basis		<u><u>\$ 114,657</u></u>
Net Change in Fund Balances - Modified Accrual Basis		\$ 18,171
Amounts reported in the statement of activities are different because:		
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Ending Receivable - Full Accrual Only	\$ -	
Beginning Receivable - Full Accrual Only	<u>(1,000)</u>	(1,000)
Capital outlays are reported as expenditures in the statement of		
Capital Outlay	4,112	
Depreciation	<u>(66,584)</u>	(62,472)
Repayments of loan principal are reported as an expenditure in the		<u>30,913</u>
Change in Net Assets of General Fund - Full Accrual Basis		<u><u>\$ (14,388)</u></u>

NOTE G EXTRAORDINARY ITEMS

During the fiscal year ended March 31, 2008, the Fire Authority statements show both an extraordinary gain and an extraordinary loss. These transactions are defined as items that are both infrequent in occurrence and not within the control of management. The extraordinary loss of \$3,080 was due to Authority funds that had been misappropriated during the current year. The extraordinary gain of \$2,830 was a partial repayment of both these funds and additional funds that were misappropriated in the prior fiscal year.

HESPERIA AREA FIRE AUTHORITY

Budgetary Comparison Schedule For the Year Ended March 31, 2008

	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
Revenues				
Contributions from Local Units				
Beaver Township	\$ 6,917	\$ 6,917	\$ 6,917	\$ -
Dayton Township	2,970	2,970	2,970	-
Denver Township	34,750	34,750	34,750	-
Greenwood Township	25,506	25,506	25,508	2
Newfield Township	54,991	54,991	54,954	(37)
Insurance Charges	500	500	4,000	3,500
Insurance Recoveries	-	4,146	7,714	3,568
Interest Revenue	-	-	1,660	1,660
Miscellaneous Revenue	-	-	752	752
Total Revenues	125,634	129,780	139,225	9,445
Expenditures - Public Safety				
Wages	27,000	29,035	29,035	-
Payroll Taxes	2,500	3,948	2,221	1,727
Supplies	1,200	1,200	1,765	(565)
Professional Fees	500	500	423	77
Contracted Services	2,400	2,400	2,400	-
Membership/Subscriptions	-	20	251	(231)
Fuel - Trucks	2,200	3,000	2,345	655
Transportation	500	500	84	416
Printing and Publishing	100	100	44	56
Insurance and Bonds	13,000	13,000	12,734	266
Medical	550	550	50	500
Utilities				
Electricity	1,500	1,500	1,398	102
Fuel - Heat	2,250	2,869	2,869	-
Telephone	700	700	531	169
Repair and Maintenance				
Insurance Reimbursement	-	-	9,097	(9,097)
Equipment	7,500	7,500	5,135	2,365
Communication	2,500	2,500	1,595	905
Licenses and Permits	35	35	25	10
Miscellaneous	2,302	752	546	206
Education and Training	750	836	836	-
Building and Grounds	2,500	2,500	2,661	(161)
Capital Outlay	15,000	15,000	4,112	10,888
Debt Service	40,647	40,647	40,647	-
Total Expenditures	125,634	129,092	120,804	8,288
Excess Revenues Over (Expenditures)	\$ -	\$ 688	18,421	\$ 17,733
Extraordinary Income			2,830	
Extraordinary Loss			(3,080)	
Net Change in Fund Balance			18,171	
Fund Balance - Beginning of Year			18,244	
Fund Balance - End of Year			\$ 36,415	



Board Members,
Hesperia Area Fire Authority
Hesperia, MI

In planning and performing our audit of the financial statements of Hesperia Area Fire Authority as of and for the year ended March 31, 2008 in accordance with auditing standards generally accepted in the United States of America, we considered Hesperia Area Fire Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Hesperia Area Fire Authority's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

Anti-Fraud Program

The Authority has not adopted an Anti-Fraud Program (such as the attached standards of ethics and conduct) as required by SAS 99.

Software Deficiencies

Although not under the control of the Fire Authority, there is a significant deficiency within the QuickBooks software program. It is possible that once transactions have been processed in QuickBooks, that data can be changed at a later date. For example, a check may be written to an unauthorized vendor and printed. Once the transaction has been processed, one could go into the system and change the data to reflect a vendor that would not raise suspicion if the data was reviewed by the board.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We identified the following deficiencies in internal control that we consider to be material weaknesses.

Segregation of Duties

Internal controls are most effective authorization, bookkeeping, access to assets, and independent review functions are separated. In as much as this is difficult because of the size of the entity and there is only one person who performs both the bookkeeping and has access to assets (cash), the

authorization and independent review functions are even more vital. We did find that the Hesperia Area Fire Authority's internal controls did lack independent review of the bank reconciliations and proper authorization for all payments made.

Management Oversight

We found little management oversight with the Hesperia Area Fire Authority in regards to transactions occurring and recorded in their financial statements. We would like to see the board take a greater responsibility in reviewing the financial statements, bank reconciliations, and also the insurance billings.

Controls over Non Routine & Non Systematic Transactions

The Authority did not maintain effective controls over the validity of general ledger journal entries. Specifically, the Authority has a general ledger system in which journal entries can be processed without approval. This control deficiency resulted in adjustments, including audit adjustments to the financial statements. As the financial statements are not reviewed, the control deficiency could result in a material misstatement to the financial statement that would not be prevented or detected.

Controls over Financial Statement Preparation

As is common in Small Organizations, the Authority's accounting department currently does not perform the following functions:

- Prepare its financial statements, complete with notes, in accordance with accounting principles generally accepted in the United States of America. Accordingly, the Authority is unable to, and has not established internal controls over the preparation of financial statements.
- Prepare schedules of property and equipment and record depreciation. Currently, in the course of performing the audit, depreciation schedules are updated for activity during the year, and depreciation is calculated and recorded.

As part of the audit, management has requested us to prepare a draft of the Authority's financial statements, including the related notes to the financial statements. Management then performed a review of the financial statements. However, in order to provide improved oversight of the financial statement preparation services at an appropriate level and implement controls over the financial reporting process, management might establish review policies and procedures including the performance of some or all of the following functions:

- Review the adequacy of financial statement disclosures, possibly including reviewing and approving a completed disclosure checklist we would provide to you or by completing a disclosure checklist.
- Review and approve schedules and calculations supporting amounts included in the notes to the financial statements.
- Apply analytical procedures to the draft financial statements.
- Perform other procedures as considered necessary by management.

Our consideration of the internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

This communication is intended solely for the information and use of management, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Hendon & Slate, P.C.

Hendon & Slate, P.C.
Certified Public Accountants
January 5, 2009



January 5, 2009

To the Board Members
Hesperia Area Fire Authority
Hesperia, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Hesperia Area Fire Authority for the year ended March 31, 2008, and have issued our report thereon dated December 29, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 14, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Hesperia Area Fire Authority are described in Note A of the financial statements. A Capitalization policy by the board has not been adopted. The application of GASB 34 was implemented during the 2007-2008 fiscal year. We noted several transactions entered into by the governmental unit during the year resulting in a "loan" to the contracted worker, for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the accumulated depreciation on property and equipment is based on straight line depreciation .

We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.



Difficulties Encountered in Performing the Audit

Although we encountered no difficulties in dealing with management in performing and completing our audit, we did find difficulty with the condition of the books and records.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. One material adjustment which was detected during the audit and corrected by management was the adjustment of beginning balances and the recording of deferred revenues. Other adjustments included reclassifications, and cash adjustments .

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 5, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

Effective controls over financial reporting can usually be accomplished when authorization, bookkeeping, access to assets, and independent reconciliation functions are separated. In organizations the size of the Hesperia Area Fire Authority, this can often be difficult to achieve. As part of our audit of your financial statements, we studied your system of internal control and have the following comments, observations, and recommendations:

Bank Reconciliations – A significant tenant to any control system resides with an independent reconciliation of your bank accounts. i.e. the person in charge of payroll, or responsible for payment of accounts payable does not reconcile the bank account. As this is not currently in place at the Fire Authority we offer the following options:

1. A separate member of the board should complete the bank reconciliation to ensure all deposits, checks, and other transactions have been recorded and are reasonable in the books of the Fire Authority. This person should also review the cancelled check copies to verify authorized signature and endorsement.
2. If it is not possible or reasonable for another member of the board to complete the bank reconciliation due to QuickBooks or other limitations, than at a minimum a member of the board should be reviewing the bank reconciliation. At this time the board member should perform the following:
 - a. Review the bank statement for unusual items

- b. Review the cancelled checks for proper signature and endorsement
- c. Review the bank reconciliation detail worksheet for reconciliation discrepancies or unusual outstanding items.

Review of Payments - We did note that the Fire Board does review payments for approval prior to checks being mailed to vendors. We offer the following suggestions to improve this control for the Authority:

1. We recommend the board have actual invoices to approve for payment along with a listing of payments to be made.
2. We recommend the listing to be provided to the board with the check number that will be used. With this, the Board should account for each check written by comparing the last check number used last month with the first check number used this month.
3. The board should also retain any voided checks.

Fire Insurance Billings - We were pleased to see the board does maintain a listing of fire incidents, and is recording when insurance fees related to those incidents are received. However, there is no oversight regarding this function as to whether all insurance monies have been billed or collected. We recommend that a member of the board either keep the fire incident listing, or reconcile the listing kept and follow up on uncollected billings. We do understand that at this time it is the Board's policy to not rebill or try to collect insurance monies that have not been paid. We would like to point out that this is a detriment to your controls, as it would be impossible to have independent reconciliation of billings received.

Payroll – During the audit, we found that the amount of wages reported on to the Department of Treasury on the quarterly 941 reports was not the same as the amount of wages reported to Social Security Administration on the W-2's and W-3 forms. We found the amount on the W-2's to be correct, however due to the amount reported on the 941, a notice for additional tax was calculated from the IRS in the amount of \$1,183.47. This amount was paid by the Authority and can be refunded if a letter stating the issues and a corrected 941 is sent to the IRS. We would be happy to provide the Fire Authority with a reconciliation form to ensure future amounts reported on the 941 are equal to the wages reported to the Social Security Administration and that any errors are corrected timely.

Accounts Payable – We were not able to locate documentation for all expenditures paid by the Fire Authority during the audit year. We would recommend to the Board that all documentation is available before any payments are made and such documentation is then kept with the corresponding check stub for future reference.

Financial Statement Review – A final suggestion to the Fire Authority Board is to take advantage of the reports available in QuickBooks. At monthly meetings, we recommend the Board review both the balance sheet and profit and loss (on a budget to actual basis). This will allow the board to use the budget as a planning tool and be aware of any variances. We also feel problems found in the previous audit would have been detected had the board been reviewing the balance sheet.

GASB 34 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments

We are pleased to see that the Board has adopted GASB 34.

Budget Over expenditures -During our audit, we again noted a few instances of budgeted expenditures exceeding budgeted revenues. As a reminder, the State recommends that when preparing the budget for any given year that the Board is provided the most recent two years actual revenues and expenditures. For example, when budgeting for the 2008-2009 fiscal year, the 06-07/07-08 actual revenues and expenditures reports should be at the budget meeting for reference.

Fixed Asset Capitalization & Investment Policy

The board has not adopted a Fixed Asset Capitalization Policy or an Investment Policy as required. We have attached examples to help the board adopt these policies.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the members of the board and management of Hesperia Area Fire Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Hendon & Slate, P.C.

Hendon & Slate, PC
Certified Public Accountants
Fremont, Michigan